TRANSACTIONS OF SOCIETY OF ACTUARIES
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DIGEST OF SMALLER COMPANY FORUM

VALUATION

A. In what respect and to what extent is it practical for a small company to strengthen reserves, and what methods have been found most satisfactory?

B. What approximate methods are used (i) in valuing disability, double indemnity, family income, and other benefits, (ii) in determining the reserve released by voluntary terminations?

MR. C. W. SOLENBERGER pointed out that the commissioners have advocated reserve strengthening for various specific types of benefits. Half of the companies operating in Illinois with 50 to 500 million in force, and over 80% of those with over 500 million, strengthened reserves in 1949, with supplementary contracts receiving the greatest attention. He outlined the method followed by his own Company involving revaluation of several different classes of business. They determine each year-end the amount available for revaluation purposes and place this amount in contingency reserve. During the following year, sufficient revaluation is made to absorb this contingency item. He strongly recommended prompt action to strengthen reserves.

MR. W. C. BROWN outlined the reserve strengthening program of his Company since 1945 which absorbed the major part of insurance earnings through 1949. Business was revalued in blocks, such as years of issue, as amounts became available. He suggested the possibility of moving to the Commissioners Reserve Valuation Method when strengthening the life policy reserves.

MR. C. C. KIRKPATRICK outlined his Company's program since 1942, which involved revaluing policies as they became paid-up. He pointed out the distortion resulting in the gain and loss when premium paying policies are revalued.

MR. H. L. FEAY advised companies considering reserve strengthening to discuss the problem with their insurance department and keep them in touch with the company's plans. He suggested that frequently the problem is not to decide what reserves need strengthening but to provide the necessary funds. All avenues of expense saving should be explored as a possible source of funds. He stated that if a company values issues prior to 1948 by use of the Commissioners Reserve Method on the CSO table it may find that the new reserves are inadequate on some policies although the aggregate reserves on the new standards will be in excess of the aggregate reserves on the old standards. He suggested that this situation could be solved by describing the reserve standard for the business as being the old standards plus an amount necessary to give the total reserves required by the new standards. He outlined various approximate methods of valuing supplementary benefits such as use of year of issue factors based on more detailed valuations at quinquennial dates. He indicated that the more detailed valuations might be for representative samples of the business rather than for the total insurance in force if the sampling procedure saved time and gave sufficiently accurate results.

MR. E. J. MOORHEAD, speaking from the standpoint of a company writing nonparticipating business, pointed out that the objective of valuation is to find out if the company is solvent and to avoid spending money if one is not free to spend it. If surplus is assigned to reserves in excessive amount it will merely flow back into surplus again. He advocated a gross premium analysis repeated periodically.

MR. AUBREY WHITE also suggested a gross premium valuation to determine the true financial position but advised against tying funds up in reserves. He regretted the fact that state authorities do not automatically accept the certificate of a qualified actuary covering the reasonableness and adequacy of reserves. He outlined his Company's approximate method for valuing supplementary benefits based on average factors applied to ten year age groups under each plan in selected years.

MR. E. F. ESTES also advocated leaving reserves on the legal minimum basis but using gross premium valuation and similar approaches to provide company officers with the best possible picture of the true condition. He pointed out that the liabilities were to some extent a legal fiction in the same way as the assets, in that the latter excluded many perfectly sound forms of asset. His Company values the disability and double indemnity business as of January 1 and obtains ratios to gross premiums, which are used on the business at the year-end.